LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6224
BILL NUMBER: SB 165

NOTE PREPARED: Jan 9, 2007
BILL AMENDED: Jan 9, 2007

SUBJECT: Venture Capital Investment Tax Credit.

FIRST AUTHOR: Sen. Ford
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) The bill provides that a taxpayer is not entitled to a Venture Capital Investment Tax Credit for providing investment capital after December 31, 2012. (Current law provides that a taxpayer is not entitled to a credit for providing investment capital after December 31, 2008.)

Effective Date: July 1, 2007.

Explanation of State Expenditures:

Explanation of State Revenues: (Revised) *Summary:* The bill extends the Venture Capital Investment (VCI) Tax Credit by four years by changing the current expiration data from December 31, 2008, to December 31, 2012. The bill would allow the Indiana Economic Development Corporation (IEDC) to award up to $12.5 M annually in new tax credits for four additional years beginning in 2009. So far, the IEDC has awarded $7.4 M in VCI credits for 2004, $3.4 M in VCI credits for 2005, and $1.9 M in VCI credits for 2006.

Background: The VCI Tax Credit is a nonrefundable tax credit equal to the lesser of: (1) 20% of qualified venture capital investment (debt or equity capital) provided to a qualified Indiana business during a calendar year; or (2) $500,000. The IEDC is responsible for certifying businesses as qualified to receive creditable venture capital investment and for certifying the tax credit amounts to investors in these businesses. The tax credit is allowed for venture capital investment made from January 1, 2004, to December 31, 2008. Under current law, a taxpayer may claim the credit against the State Gross Retail and Use Tax, Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, or Insurance Premiums Tax liability. While the tax credit is nonrefundable, it may be carried forward to subsequent years. No carryback of the tax credit is allowed. Total new credits that could be certified by the IEDC for investment in 2004 was limited to $10 M. This annual credit limit was increased to $12.5 M beginning in 2005. A taxpayer must provide the venture capital investment to the qualified company within two years to obtain the tax credits. Unused credits that are carried forward by taxpayers are not counted toward the $12.5 M annual maximum.

Since 2004, 126 businesses have been certified by the IEDC as qualified to receive venture capital investment for which the investors could claim VCI credits. A total of $12.7 M in VCI credits have been awarded to investors by the IEDC; however, the amount of credits actually claimed against state tax liability is unknown. The table below outlines the activity in the VCI credit program. Each qualified business proposes an amount of venture capital that it will raise and the IEDC allocates a credit amount to the business based on the proposed investment amount. Once an investor makes venture capital investment in a qualified business, credits allocated to that business are awarded to the investor. The credits can, at that point, be claimed by the investor against state tax liability. While the IEDC has annually allocated an amount of credits to qualified businesses in excess of the annual credit limit, the total credits that could be awarded to and claimed by investors may not exceed the annual credit limit.

	2004	2005	2006
Qualified Businesses	39	38	49
Credits Allocated	$16.0 M	$10.7 M	$13.2 M
Credits Awarded	$7.4 M	$3.4 M	$1.9 M

Sales Tax revenue is distributed to the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%). Revenue from the Individual AGI Tax is distributed to the state General Fund (86%) and the Property Tax Replacement Fund (14%). Revenue from the Corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Economic Development Corporation; Department of State Revenue.

Local Agencies Affected:

Information Sources: Gretchen White, Indiana Economic Development Corporation, (317) 234-3997.

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